

## CRYPTO CURRENCY: A BRIGHT FUTURE OR JUST A FAD

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### ABSTRACT

*Cryptocurrencies have become a prominent issue in the financial business in recent years. Cryptocurrency is a type of digital, virtual, or internet currency that is secured by encryption. Cryptocurrency has brought about unprecedented changes in the financial industry, both favorable and negative. Cryptocurrency is a difficult idea to grasp, but it is simple to utilize. It is tough because it is fundamentally different from the traditional currencies that we have used for centuries. Following the global financial crisis of 2008, Bitcoin was established to operate independently of governments, central banks, and financial institutions. Since then, the architecture of Bitcoin has been a problem to many policymakers, who have struggled to discover ways to bring it under control. As a result, some countries have banned or made it illegal, while others have remained vigilant, and the remainder have devised ways to tax and control its operations. This conceptual paper aims to investigate several elements of cryptocurrencies, beginning with their history, types, and operation, as well as their benefits and drawbacks, problems, and potential. The research also looks into the legal status of in India.*

**Keywords:** Cryptocurrency, Bitcoin, Blockchain, Advantages, Disadvantages, Challenges.

### Introduction

There's no denying that the information and communication technology era has ushered in a plethora of golden chances in a variety of fields. The financial and commercial sectors are one of the domains that profit from these technology and Internet connections. Virtual world concepts have been triggered by an increasing number of Internet users, resulting in a new commercial phenomenon. As a result, new forms of commerce, transactions, and currencies have emerged. Cryptocurrency is one of the most extraordinary financial forms to emerge in recent years. Cryptocurrency (CC) is any form of digital money that can be used in a variety of financial transactions, whether virtual or real. Cryptocurrencies are valuable and intangible things that can be exchanged electronically or virtually in a variety of applications and networks, including online social networks, online social games, virtual worlds, and peer-to-peer networks. Cryptocurrency costs a low fee, which is far lower than the fee charged by a financial institution for credit card processing. Cryptocurrency may be converted into other forms of money and stored in client records more quickly.

### Blockchain and Cryptocurrencies

Cryptocurrency was the first and is now the most popular application of blockchain technology. To assure authenticity, cryptocurrency is simply the transfer of value between parties utilizing encryption rather than central financial institutions. As a result, in bitcoin, the centralized bank's ledger is simply replaced with the blockchain, a distributed ledger.

Blockchain's applications, on the other hand, go far beyond the implementation of cryptocurrencies. While the notion of a distributed ledger is simple to grasp, its secure implementation and applications yield revolutionary effects. To comprehend the significance of the blockchain's invention, one must first comprehend the Byzantine Generals Problem.

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The Byzantine Generals Problem is a classic distributed systems problem depicted by multiple armies converging on a castle to attack it. Only if all armies strike at the same moment can the castle be taken. Consider a simple approach in which the main army sends a messenger to all other armies, instructing them to attack at a specific moment. The messenger could be intercepted in transit, preventing the attack message from being transmitted. To confirm that a message was delivered, the sending party could request a message acknowledgement, but the same problem arises because the message acknowledgement's deliverer could be captured as well. As a result, a consensus must be formed confirming that (1) the assault message's transmitter knows that all other armies have received it, and (2) any army that has received it can confirm that all other armies have received it. Assume that instead of sending a messenger, the commander-in-chief of the army posts his attack message to a blockchain. The attack is set to take place 12 hours from now. The proof of work on this blockchain is such that if all armies work on solving the problem at the same time, the first solution will appear in around 10 minutes. When the general who issued the attack message notices valid proof of work solutions arriving every 10 minutes, he can be confident that all other armies have received the message because no fewer armies could be producing legitimate proof of work solutions at this rate. Similarly, given the rate at which proof of work solutions are produced, every other army may be fairly certain that every other army has seen the attack message.

The Byzantine Generals Problem describes challenges that are also pertinent to the concept of a distributed ledger. This method can be used to verify that all parties agree on the present state of a ledger, just as the blockchain solution to the Byzantine Generals Problem assures that all parties know that all other parties have seen a message. We can now use a distributed ledger for a wide range of applications because we can now reach a consensus on it. In a simple scenario, we may utilize it to implement cryptocurrencies as a value transfer system. In more complex systems, it might be used to build consensus on the condition of digital assets, allowing smart contracts to be implemented.

### **Legal Aspect**

The Indian Parliament is considering introducing the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, according to the Lok Sabha Bulletin (the "CryptoBill"). The Crypto Bill aims to restrict "private" cryptocurrencies in India, with some exceptions, in order to promote cryptocurrency's underlying technology and create a framework for producing an official digital currency, the Reserve Bank of India's central bank digital currency ("RBI"). On April 6, 2018, the RBI issued a circular instructing its regulated entities not to deal in crypto/virtual currencies or provide any services for facilitating any person or company dealing with or settling virtual currencies, and many banks froze cryptocurrency platforms' current account operations, effectively shutting down crypto trading. The RBI circular was later overturned by the Supreme Court of India in March 2020, with the court stating that while the RBI had broad powers over the country's economy, the steps adopted by the RBI to issue the circular were not proportionate, and thus violated Article 19(1)(g) of the Indian Constitution.

### **Aim of this Research**

It's working to grasp the concept of crypto currency. To investigate the benefits and downsides of cryptocurrency. The purpose of this study is to look into the legal position, difficulties, and potential of crypto money in India.

### **Research Methodology**

This work is entirely based on secondary data gathered from journals, media articles, websites, and statutory reports. For this investigation, descriptive research was used. Qualitative data has been used to explore and analyze the impact of legalizing cryptocurrency in India on its people and economy in order to fulfill the goal of this research paper.

### **The Benefits of Cryptocurrency**

- **Job Creation**

The crypto and blockchain markets, according to the job search site, have seen rapid growth. Jobs connected to blockchain technology, cryptocurrency, and bitcoin have increased by more than 90% in the United States. Bangalore and Pune, it was also revealed, offer a lot of potential for blockchain and crypto career prospects. Unemployment has risen dramatically in practically all areas of the economy in recent months. Crypto exchange Wazir's CEO (Nischal Shetty) believes that bitcoin may assist the country create more job opportunities while also stabilizing employment rates.

- **Creating Wealth**

Initial coin offerings (ICOs) have the potential to become a global platform for entrepreneurs to raise funds. This may entice foreign investors to invest in Indian firms. With India's current economic situation, it would be a huge mistake to ignore cryptocurrency.

- **Traditional Financial Institutions are Benefiting from Blockchain Technology**

In India, cryptocurrency does not have to compete with the currency or any established financial institutions. They could be able to coexist in the same space. Traditional financial institutions with cryptocurrency and blockchain technology may be complementary. Collaboration would bring in additional investors, while blockchain technology would improve bank security and transactions, as well as give improved traceability and accountability.

- **Digital Payments are Becoming More Popular**

There has been a significant increase in the trend of digital payments, which has considerable future potential. Using cryptocurrencies for domestic transactions would appeal to the general populace. Due to the ease of availability of cryptocurrency, which is not tied to a country, investors may be able to invest more on the internet. They would be safer and have a lower danger of being robbed if they used blockchain technology. Cryptocurrency could be used by international firms for faster and easier transactions, as it is hassle-free and has cheap transaction fees.

### **Difficulties and Problems**

Cryptocurrencies are not without their own set of financial issues and security concerns. In order to investigate the obstacles and concerns that exist in such virtual phenomena, I examined numerous research and cryptocurrency sites, as well as several cryptocurrency selling forums. The following are some of the most significant issues and consequences of cryptocurrency:

- **Threats to Security**

If hackers and bad people can undermine the system and figure out how to manufacture virtual currency, they can make as much as they want. This will enable the creation of phony virtual currency or the theft of virtual currency by simply changing account balances. Selling virtual objects and virtual currency in-game, for example, is against World of Warcraft (WoW) game policies. As a result, a large number of players visit WoW gold selling websites in order to purchase virtual gold in order to pay for virtual products that they require. Many WoW gold selling websites are unreliable and subject to hacking, and many customers have complained about spending real money for virtual cash that isn't real.

- **Concerns about Cryptocurrency Systems Collapsing**

Because virtual currency is not issued in accordance with demand and supply, it will cause economic problems in a range of virtual communities. Some providers, like Second Life, may be able to issue unlimited Linden Dollars and raise the prices of virtual things in order to increase real-world revenue. Inflation and economic problems, on the other hand, will cause the virtual currency system to collapse.

- **Real-world Monetary Systems are Impacted**

Because some virtual currency systems are linked to real-world monetary systems, they may have an impact on real-world money demand and supply. Allowing consumers to buy virtual and real goods and services using virtual currency, for example, may lessen the demand for real money on some platforms. Users will no longer use actual money to purchase anything; instead, they will use virtual money. On the other hand, some sites allow users to trade their virtual currency for real money, which will raise demand for real money. The real monetary systems will be affected by this fluctuation.

- **The Dangers of Gold Mining**

In China and other emerging countries, the term "gold farming" is highly widespread. Gold farmers are those who play social games like World of Warcraft for the purpose of gaining gold, the game's virtual currency, and then selling it for real money. Players who do not have enough time to play and compete for virtual cash are the target purchasers. In truth, the gold farming operation generates a large amount of cash flow that is not controlled or regulated. When virtual currency is exchanged for real money in an uncertain environment, this will raise fraud and financial hazards.

- **Changes in the Value of Virtual Currencies**

According to the Chow and Guo study, when the popularity of a virtual community declines, so does the value of its virtual currency. Users with 1000 virtual money units, for example, can choose from a selection of 100 goods. If the virtual currency supplier goes out of business, customers will only be able to buy 10 products with their 1000 units, as fewer goods and services will be available, especially in closed virtual communities.

- **Laundering of Funds**

Money laundering is one concern that is likely to increase as more people use VC, particularly on sites that allow users to swap virtual currency for real money. In a real-life case from Korea in 2008, police arrested a gang of 14 people for laundering \$38 million from the sale of virtual money. The organization transferred \$38 million in gold farming proceeds from Korea to a paper company in China as payment for goods.

- **Risks Associated with an Unknown Identity**

Financial transactions cannot be closely controlled because most virtual currency platforms, such as social games and social networks, do not need authentication when opening an account. Gamers and users can create many accounts with fictitious identities and use them to conduct unlawful business. There is no way to identify the source of the virtual currency that is created or cashed out. This makes it impossible to track transactions if money laundering is suspected. Furthermore, offenders will be able to receive rewards in virtual currency for their crimes if they have an anonymous identity.

- **Cryptocurrency Black Market**

Some social games, such as Second Life and World of Warcraft, have matured to the point that they can develop a black market for purchasing and selling their virtual currency. Because of the growing popularity of virtual currency in the Internet world, a robust illicit market for selling virtual currency for real money has emerged. Some fraud situations have been raised and debated among users after watching many social game forums. When a gamer decides to leave a game, for example, he or she may want to sell any virtual currency they have on the game's forums. The method of accepting money is dangerous since many malicious individuals may fail to complete the transaction or dispute the payment after it has been made. They will receive their money back as well as the virtual currency in this situation.

### **Conclusion**

Cryptocurrency is an appealing model of payment systems that is both practical and safe, and it has the potential to help businesses grow. They also serve as an alternate payment method to currency notes, allowing users to quickly engage in financial transactions such as transferring, exchanging, purchasing, and selling. The blockchain technology adds to the transaction's security. Several variables may contribute to good improvements in the e-commerce, e-business, and e-payment sectors, but there are also a number of negative elements that harm this kind of transaction. To obtain more trust, cryptocurrency must be effectively regulated and monitored. However, given the worldwide interest in cryptocurrencies and blockchain, prohibiting it in India is not an option, and we will await the government's response. The topic of cryptocurrency offers numerous research options, and numerous investigations must be completed in order to provide scientific information. The relationship between real financial regulations and the legal status of implementing cryptocurrency platforms should be investigated further from a variety of angles. Furthermore, the level of adoption and acceptance requires further thought and study with huge samples. In terms of using and trading Cryptocurrency forms, trust and confidence are crucial variables that should be researched further. The research scope might be expanded to include establishing use-cases for cryptocurrency applications in India's various sectors.

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